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MAR 19 1973

Major General John W. Barnes  
Chief, Military Assistance Advisory  
Group, Republic of China  
P. O. Box 13  
APO 96263

Dear General Barnes.

During our recent follow-up review on the Military Assistance Program (MAP) for the Republic of China, we noted a continuing problem which we believe merits your attention.

We found that the U.S. Army's Taiwan Materiel Agency (TMA) was still purchasing some of the same repair parts that the Chinese Army had in excess quantities. A major Chinese source of the parts, and hence the excesses, was the U.S. MAP. The Military Assistance Manual and related regulations provide that MAP-furnished materiel in excess of Chinese needs should be reported for redistribution, and returned when valid U.S. needs for the materiel are identified. We believe that if these procedures were followed, the savings in TMA procurement could amount to several hundred thousand dollars. At present, though, the excesses are not being reported or made available to TMA.

POTENTIAL FOR SAVINGS THROUGH  
USE OF MAP EXCESSES

TMA administers a program on Taiwan for the rebuild of general purpose vehicles, armored personnel carriers, tractors, and other equipment, as well as major components for some of these items. Much of this same type equipment, and related repair parts, have been obtained by the Chinese Armed Forces through MAP.

During our visit we were unable to determine TMA's total parts requirement, but we estimated that the parts for just the scheduled rebuild of two major vehicles--about 3,500 1/4-ton and 3/4-ton trucks--would cost about \$2.2 million. There are about 1,500 different parts

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used in rebuilding these trucks. In order to judge the extent to which the same parts might be available and excess in the Chinese inventory, we compared 96 of them against the Chinese Army stock status report of active items.<sup>1</sup> The 96 items were taken from TMA listings of parts currently on order, or recently purchased in Taiwan. They were selected randomly except that we included all 20 parts that had been identified as causing either actual or potential work stoppages. Of the 96 items examined, 56 were listed in the Chinese active inventory and 25 of those showed an excess quantity on-hand (valued at \$81,000--see enclosure). Six of the items in excess had been identified by TMA as work-stoppage items.

In a smaller test of parts used in rebuilding armored personnel carriers (APCs), we randomly selected seven from a list of the many APC parts that TMA was procuring on Taiwan. Three of the seven were shown on the Chinese active inventory in excess quantities, valued at about \$35,000--see enclosure.

To determine the full savings available by using Chinese excesses in the TMA program, the total parts requirements for all TMA projects should be compared with the Chinese inventory position on those parts. Also, the further savings in transportation costs should be considered. Judging by the results of our limited tests, this should be a worthwhile effort.

#### ACTIONS REQUIRED IN ORDER TO UTILIZE THE EXCESSES

During our prior review of MAP-China in 1970, we informed officials of both TMA and the MAAG of the potential for using Chinese excesses in the TMA rebuild program. At that time MAAG officials replied that the Chinese Army was establishing realistic inventory levels of spare parts, that excesses would be reported, and that a detailed check would be made of items related to the U.S. rebuild program. In our recent follow-up, we found that these actions were not taken or, apparently, even attempted.

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<sup>1</sup>The Chinese also maintain an inactive inventory, which may be a source of additional excesses. The stock status of this inventory was not readily available during our short visit to the Chinese Army Inventory Control Center.

In discussions with the MAAG's staff during our follow-up review, we provided a list of the Chinese excesses for which TMA had a requirement (included in the enclosure), and suggested that the total TMA parts requirement be matched against the Chinese inventory of both active and inactive items. Your staff agreed to do this, but pointed out problems in identifying the quantities in excess, and determining if the parts were financed by the U.S. or the Chinese.

#### Identifying excesses

We are aware that MAP excesses are not well defined, and we have pointed out in the past that this has contributed to their not being reported. Standards for realistic MAP inventory levels and the reporting of excesses for worldwide screening still need to be developed. However, these shortcomings should not delay the use of excesses in ongoing U.S. programs. MAAG regulations have in the past defined any quantities of U.S.-furnished parts beyond the requisitioning objective (current requirements) as available to meet identified U.S. needs. This was the criteria used in our tests, described above. It seems to us reasonable, and the criteria that the MAAG should apply in this case.

#### Determining financing source

We also recognize that identifying the source of particular Chinese excess parts is a problem. Generally, over the years, spare parts have been furnished through various excess article programs, through stripping of unserviceable U.S. equipment, and through grant aid. In fiscal year 1972, \$6.7 million worth of parts were furnished as excess articles, and another \$5.2 million worth were furnished in the first half of 1973, before the SIMEX and PURA programs were discontinued in February 1973. The problem, of course, is that some Chinese-purchased parts are mixed with the U.S.-furnished parts in the Chinese inventory. We know from past reviews that the Chinese source codes on these items are unreliable. For example, parts obtained by stripping unserviceable U.S. equipment have routinely been coded as Chinese procured. Nevertheless, we are confident that the MAAG, as part of its mission in monitoring the use of U.S.-furnished material as well as administering the military sales program, would be able to distinguish, broadly, between U.S.-furnished and Chinese-purchased parts. In cases where the excess quantities of needed parts can be attributed to U.S. aid, we think they should be made available to TMA.

We recognize, too, that even though the U.S. is legally entitled to this material, its recovery is more of a diplomatic than a legal matter. In this regard, the Chinese have been cooperative in all such prior cases where we have asked their assistance. Since this appears to be an opportunity to save our Government substantial costs, we believe it should be pursued aggressively--by the entire country team if necessary.

#### OTHER U.S. USES OF CHINESE EXCESSES

We are emphasizing the use of Chinese excesses in the TMA program at present because of the need for immediate action, and because it is a significant known requirement that can be satisfied right on Taiwan. More generally, though, there is the continuing need to have Chinese excesses of U.S.-furnished material reported so they can be made available for any other U.S. worldwide requirements. An example of such need is a recent order for TMA to disassemble 1,000 M151 jeeps so as to recover various assemblies, indicating an immediate U.S. need for the assemblies. M151 components are among items we have noted as excess in the Chinese inventory.

During our follow-up we re-examined 49 line items identified as excess in 1970, and found that 42 were still excess. (The specific items were pointed out to the cognizant members of the MAAG staff.) We concluded that many of the items in the Chinese inventory are excess, but are still not being reported. We know the MAAG has advised the Chinese in the past to report excesses, but apparently without success. We think, therefore, that the matter should be raised again.

#### RECOMMENDATIONS

To summarize our views on the matters discussed above, we believe Chinese excesses should be used to the extent practicable to meet TMA, or any other identified U.S. requirements, and more generally, that Chinese excesses of U.S.-furnished material should be routinely identified, reported, and made available for worldwide redistribution.

To accomplish the former, we recommend that TMA's current and continuing requirements, including those for parts ordered but not shipped, be matched against the complete Chinese military inventory to identify needed items in excess of the requisitioning objectives. This action should be taken in a joint effort by the MAAG and TMA staffs. The Chinese should then be asked and encouraged--with Embassy assistance if required--to make such material available for TMA use, in lieu of additional U.S. procurements.

We think the same procedure should also be followed for any other identified U.S. requirements, such as the M151 components discussed above.

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We are also informing TMA of our views on this matter in a separate letter, and suggesting that the two commands coordinate efforts. We would appreciate being advised on the actions taken, and the results.

Let me take this opportunity, also, to thank you for the courtesy and cooperation extended by the entire MAAG to our staff during the follow-up review. It expedited our work, and made the visit a particularly pleasant one. We are preparing a summary on the results of our follow-up review for our GAO Washington staff. It will cover improvements made by the MAAG since our last review, as well as some of the continuing problems.

Sincerely,

  
C. Roman  
Director

Enclosure.  
List of the Chinese  
excesses

## ENCLOSURE

List of Items Used by TMA Which the  
Chinese Army has in Excess Quantities

<u>FSN</u>	<u>RO&amp;DO</u>	<u>On-hand serviceable</u>	<u>Total excess</u>	<u>Value of excesses</u>
<u>Repair parts for 1/4-ton and 3/4-ton trucks:</u>				
2540-737-3739	2	28	26	\$ 364
2805-173-0303	114	245	131	12,314
2805-678-1383	337	646	309	263
2805-678-3187	12	135	123	585
2805-886-8080	9	77	68	1,858
2910-040-1933	1590	2501	911	5,721
2910-878-8839	103	560	457	6,471
2910-921-5618	119	464	345	6,917
2805-350-7511	277	479	202	941
2520-678-1282	51	746	695	17,445
2520-678-3001	-	1	1	10
2520-678-3093	-	136	136	1,295
2520-887-1339	9	292	283	2,918
2520-887-1340	9	43	34	1,458
2805-741-8576	332	614	282	674
2920-776-0355	-	3	3	24
2930-737-3692	4	6	2	115
6140-057-2553	3742	4837	1095	14,640
6145-805-3354	1126	5143	4017	1,526
6220-752-6030	57	563	506	774
2520-678-1336	-	160	160	990
2590-973-3186	107	1641	1534	1,979
2920-089-3607	104	176	72	1,197
2520-912-3056	38	220	182	672
2990-886-8085	95	144	49	<u>160</u>

\$81,311

Repair parts for M113 APC:

2530-679-7973	317	2286	1969	\$16,933
2530-781-7793	1829	7532	5703	15,968
2530-996-0718	7	31	24	<u>1,954</u>

\$34,855